

ORIGINAL



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**MEMORANDUM**

TO: Docket Control

FROM: Thomas M. Broderick  
for Director  
Utilities Division

RECEIVED  
AZ CORP COMMISSION  
DOCKET CONTROL

2016 SEP 28 PM 2 25

DATE: September 28, 2016

RE: **SUPPLEMENTAL** STAFF REPORT FOR EAST SLOPE WATER COMPANY, INC'S — APPLICATION TO REVISE DECISION NO 73091 AND 75172 PURSUANT TO A.R.S. § 40-252, TO ALTER FINANCING APPROVAL (DOCKET NOS. W-02031A-10-0168, W-02327A-10-0169, W-01906A-10-0170, W-01906A-10-0171, W-02031A-10-0171, W-02327A-10-0171, W-01906A-10-0183, W-02031A-10-0184, W-02327A-10-0185).

Attached is the Supplemental Staff Report for East Slope Water Company Inc.'s notice of proposed revision to Decision Nos. 73091 and 75172, requesting to drill a well and to obtain financing from CoBank instead of WIFA. Staff is recommending approval.

TMB:BES:nr\RRM

Originator: Brian Smith

Arizona Corporation Commission  
**DOCKETED**

SEP 28 2016

DOCKETED BY

East Slope Water Company  
Docket No. W-02031A-10-0168 et. al.

On this 28th day of September, 2016, the foregoing document was filed with Docket Control as a Staff Report, and copies of the foregoing were mailed on behalf of the Utilities Division to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission's eDocket program will automatically email a link to the foregoing to the following who have consented to email service.

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By: Nanisha Ross  
Nanisha Ross  
Administrative Support Specialist

**SUPPLEMENTAL STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

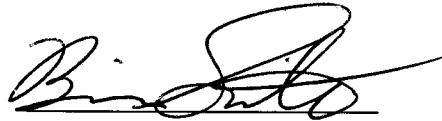
**EAST SLOPE WATER COMPANY  
DOCKET NOS. W-02031A-10-0168 et. al.**

**APPLICATION TO AMEND DECISION  
NOS. 73091 AND 75172  
PURSUANT TO A.R.S. § 40-252**

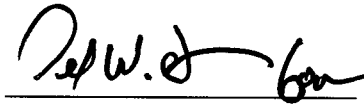
**September 28, 2016**

## STAFF ACKNOWLEDGMENT

The Supplemental Staff Report for East Slope Water Company Inc., Docket No. W-002031A-10-0168 et. al., was prepared by the Staff members signed below.

A handwritten signature in black ink, appearing to read "Brian Smith", written over a horizontal line.

Brian Smith  
Public Utilities Analyst IV

A handwritten signature in black ink, appearing to read "Katrin Stukov", written over a horizontal line.

Katrin Stukov  
Utilities Engineer

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## **BACKGROUND**

East Slope Water Company Inc. ("East Slope" or "Company") is a class D utility that provides potable water service to approximately 1,071 customers. The Company's service areas are located in Cochise County, south of Sierra Vista.

On July 15, 2015, The Arizona Corporation Commission ("Commission") authorized the Company to borrow up to \$2,114,063 in order to finance improvements on two of its systems: East Slope Main Water System and East Slope West Water System.

On May 11, 2016, East Slope filed a notice of proposed revision to amend Decision No. 73091 and Decision No. 75172 to include drilling a new well, making site improvements, and an application to amend Decision No. 73091 and Decision No. 75172 regarding financing.

On June 14, 2016, the Commission voted to re-open Decision No. 73091, pursuant to A.R.S. §40-252 for Staff evaluation.

In its application, the Company requested to change the projects the Commission approved in the prior Decisions. Further discussion on the Company's requested projects are discussed in the attached Engineering Memorandum (see Attachment A).

The Company requested to use financing through CoBank instead of the Water Infrastructure Financing Authority (WIFA). Typically, utilities are recommended by the Commission to use WIFA as a lender due, in part, to the lower interest rates offered by WIFA. Nevertheless, East Slope requested to borrow the necessary money from CoBank instead of WIFA to fund the project because the Company believes the overall cost would be less by not requiring the Company to adhere to the Davis Bacon Act, the American Steel Act, nor to be required to perform an environmental assessment before beginning the project.

## **FINANCING ANALYSIS**

Staff reviewed the financial information provided by East Slope by estimating the costs associated with using CoBank's financing in lieu of WIFA's financing. Staff determined that East Slope could save up to an estimated \$339,720 by utilizing the CoBank option for financing instead of the WIFA option (See Schedule BES - 1). The projected savings are in fact a net of the lower cost of construction estimate resulting from the elimination of the need to comply with the Davis Bacon Act, the American Steel Act, and environmental assessments, offset by a slightly higher interest rate associated with the CoBank loan option.

## **RECOMMENDATIONS**

Staff Recommends:

- The Commission approve East Slope's request to amend the prior Decisions allowing East Slope to borrow from CoBank for the amount indicated in Decision No. 75172.

- The Company to submit final loan information upon approval and final draw from CoBank for Staff's review to calculate the associated surcharge.
- Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket, by May 31, 2017, copies of the Approval of Construction ("AOC") for each of the proposed improvement projects, as delineated in the West System Proposed Capital Improvement Projects and Costs Table (revised) (as outlined in the attached Engineering Memorandum).
- Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket, by May 31, 2017, copies of the Approval of Construction ("AOC") for each of the proposed improvement projects, as delineated in the Main System Proposed Capital Improvement Projects and Costs Table (described in Decision 75172, Exhibit A).
- Staff recommends that the Company file with Docket Control, as a compliance item in this docket by December 31, 2016, documentation from ADWR indicating that the water system is compliant with departmental requirements governing water providers and/ or community water systems.

<b>Cost Analysis</b>
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<b>Required Loan Amount</b>
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	WIFA	CoBank
Main System <sup>1</sup>	\$ 1,303,438	\$ 1,303,438
West System	\$ 1,246,320	\$ 1,011,600
Environmental Assessment <sup>2</sup>	\$ 100,000	\$ -
Total Needed	<u>\$ 2,649,758</u>	<u>\$ 2,315,038</u>

1. The Company stated in response to DR 5.1 that no changes to the main system project were required.
2. The Company provided in their application an estimated range of \$35,000 to \$100,000 for the Environmental Assessment required by WIFA. Staff contacted WIFA who could not provide a range of estimated costs but stated East Slope is located in an environmentally sensitive area. Therefore, to take a conservative approach, Staff used \$100,000 to determine the financial need.

<b>Total Amount Paid Over Life of Loan</b>
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	WIFA <sup>1</sup>	CoBank
Financing		
Principal Borrowed	\$2,649,758	\$2,315,038
Interest Rate	4.46%	5.01%
Terms (Years)	20	20 Years
Origination fee		\$5,000
Required DSC	1.2	1.0 <sup>2</sup>
Total Amount over life	<u>\$4,009,565</u>	<u>\$3,669,844</u>

1. Current interest rate on the Commission approved WIFA loan is 4.46%.
2. CoBank allows the Required DSC of 1.0 when there is a surcharge associated with the loan. (Data Request BES 6.2 - Company Response)

<b>Difference overall WIFA vs CoBank</b>
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WIFA @ 4.46%	\$ 4,009,565
CoBank @ 5.01%	\$ 3,669,844
Difference	<u>\$ 339,720</u>



**MEMORANDUM**

DATE: July 12, 2016

TO: Brian Smith  
Public Utilities Analyst  
Utilities Division

FROM: Katrin Stukov  
Utilities Engineer  
Utilities Division

RE: East Slope Water Company  
Docket Nos. W-02031A-10-0168, W-02327A-10-0169, W-01906A-10-0170, W-01906A-10-0171, W-02031A-10-0171, W-02327A-10-0171, W-01906A-10-0183, W-02031A-10-0184 and W-02327A-10-0185

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**Introduction**

On May 11, 2016, pursuant to Decision No. 75172, and A.R.S. Section 40-252, East Slope Water Company ("Company" or "East Slope") filed a notice of proposed revision of scope of improvement projects (described in Decision 75172, Exhibit A) to include the drilling of a new well in its East Slope West Water System and an application to amend Decision No. 73091, to request authorization to borrow \$1,016,600<sup>1</sup> from CoBank, ACB to finance the proposed improvement projects.

The Company operates two separate water systems south of Sierra Vista, in Cochise County. These systems are East Slope Main Water System ("Main System") and East Slope West Water System ("West System").

The improvement projects listed in the Company's notice of proposed revisions are related to its West System. Per the East Slope response KS 5.1, the Company is not proposing revision of improvement projects related to its Main System (described in Decision 75172, Exhibit A).

**West System**

The West System, which includes two areas (Antelope Run and Indiada), serves over 230 customers, and has three pressure zones. Based on the Annual Report, the West system consists of five wells, two storage tanks (totaling 27,000 gallons) and three booster systems.

According to the Company, several wells have a tendency to dry up in low rainfall periods, as a result, the West System current well capacity is not sufficient to adequately meet existing demand

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<sup>1</sup> The amount includes a \$5,000 origination fee.

and redundancy requirements. The Company proposes to install a new well and rehabilitate two existing wells (Antelope Run Well Nos.3 and 5).

The West System's current storage capacity is not sufficient to meet typical storage requirements or satisfy water system demand. The Company proposes to replace the existing 12,000 gallon storage tank (at Indiada Well No.2 site) with a 100,000 gallon storage tank.

The Company's proposed revision of scope of improvement projects for the West System includes installing a 100,000 gallon storage tank, drilling a new well, and rehabilitation of two wells as summarized in the Proposed Capital Improvement Projects and Costs Table below.

**West System Proposed Capital Improvement Projects and Costs Table (revised)**

Item Description	Quantity	Unit Cost	Cost
<b>Well Projects</b>			
Antelope Run Well Nos. 3 and 5 Rehabilitation	2	\$24,000	\$48,000
Drill new well	1	\$120,000	\$120,000
Well equipment and control		\$95,000	\$95,000
Site work and piping		\$12,000	\$12,000
Electrical upgrades		\$18,000	\$18,000
Radio control system		\$15,000	\$15,000
Subtotal			\$308,000
Engineering, Permitting, Construction Services and Contingencies			\$135,520
Total for Well Projects			\$443,520
<b>Storage Tank and Pipelines Projects</b>			
Install new 100,000 gallon storage tank at Indiada Well No. 2 site	1	\$150,000	\$150,000
Site work and piping at Indiada Well No. 2 site			\$28,000
Booster and electrical upgrades at Indiada Well No. 2 site			\$36,000
Install new 6-inch DIP waterline and all appurtenances	2,100 lf	\$65	\$136,500
Install new 4-inch PVC waterline	300 lf	\$40	\$12,000
Radio control system	1	\$32,000	\$32,000
Subtotal			\$394,000
Engineering, Permitting, Construction Services and Contingencies			\$173,580
Total for Storage Tank and Pipelines Projects			\$568,080
<b>Total</b>			<b>\$1,011,600</b>

Staff concludes the proposed capital improvements and estimated costs totaling \$1,011,600, as delineated in the Company's West System Proposed Capital Improvement Projects and Costs Table (revised), appear to be reasonable and appropriate. No "used and useful" determination of the proposed plant was made, and no conclusions should be inferred for rate making or rate base purposes.

#### **Arizona Department of Environmental Quality ("ADEQ") Compliance Status**

According to an ADEQ Compliance Status Report, dated June 20, 2016, ADEQ reported no major deficiencies and has determined that the Company's two systems are currently delivering water that meets the water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

#### **Arizona Department of Water Resources ("ADWR") Compliance Status**

The Company is not located in an Active Management Area ("AMA"). According to an ADWR Compliance Status Report, dated June 6, 2016, ADWR has determined that the Company's two systems are not in compliance with ADWR requirements, as the Company did not submit their Annual Water Use Reports.

#### **Arizona Corporation Commission ("ACC") Compliance Status**

On June 27, 2016, the Utilities Division Compliance Section noted that a check of the compliance database indicates that there are currently no delinquencies for the Company.

#### **Summary**

##### Conclusions

1. Staff concludes the proposed capital improvements and estimated costs totaling \$1,011,600, as delineated in the West System Proposed Capital Improvement Projects and Costs Table (revised), appear to be reasonable and appropriate. No "used and useful" determination of the proposed plant was made, and no conclusions should be inferred for rate making or rate base purposes.
2. The Company is in compliance with ADEQ regulations and has no delinquent Commission compliance issues.
3. The Company is not in compliance with ADWR regulations.

##### Recommendations

1. Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket, by May 31, 2017, copies of the Approval of Construction ("AOC") for each of the proposed improvement projects, as delineated

in the West System Proposed Capital Improvement Projects and Costs Table (revised).

2. Staff recommends that the Company be required to file with Docket Control, as a compliance item in this docket, by May 31, 2017, copies of the AOC for each of the proposed improvement projects, as delineated in the Main System Proposed Capital Improvement Projects and Costs Table (described in Decision 75172, Exhibit A).
3. Staff recommends that the Company file with Docket Control, as a compliance item in this docket by December 31, 2016, documentation from ADWR indicating that the water system is compliant with departmental requirements governing water providers and/ or community water systems.